

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 5792

**SEATTLE COMMUNITY COLLEGES**

Agency No. 670

July 1, 1995 Through June 30, 1996

Issue Date: March 21, 1997

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**SEATTLE COMMUNITY COLLEGES**  
**Agency No. 670**  
**July 1, 1995 Through June 30, 1996**

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**Overview**

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We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Seattle Community Colleges included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Seattle Community Colleges.

Brian Sonntag, CGFM  
State Auditor

February 13, 1997

SEATTLE COMMUNITY COLLEGES  
Agency No. 670  
July 1, 1995 Through June 30, 1996

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Schedule Of Findings

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1. Seattle Community Colleges Should Improve Controls Over Cash Receipting

During our review of cash controls at Seattle Central Community College, main cashiering, we noted the following conditions and related causes:

- a. Void transactions were not reviewed or authorized by a supervisor as required by college procedures. The person assigned this duty is physically located on another floor.
- b. Cash register close-out sessions were not counted and verified by two different employees. Timing of close-out sessions does not permit two employees to verify cash counts.
- c. Physical security was not always maintained over cash receipts received through the mail. Our tests revealed that two people do not open the mail and prepare a remittance listing. Management was not aware of the potential control weakness identified.
- d. Cash and checks received at decentralized locations were not always transmitted to Main Cashiering using secure methods. We noted cash receipts transmitted by campus courier in manilla envelopes marked "cashier."

The State of Washington Office of Financial Management (OFM) *Policies, Regulations, and Procedures* manual, Section 2.2.4.1.4 states:

Daily, cash is to be counted and reconciled with the appropriate records reflecting the day's transactions. All differences are to be investigated to ascertain the reason for the discrepancy . . .

Section 2.2.2.1.1 states:

- b. Agencies are to maintain daily cash receipt records reflecting all daily receipts by account and source. Where cash registers or automated cashiering systems are used, this could be the machine generated control tape.
- c. On a daily basis, collections are to be counted and reconciled with cash receipt records and local account deposit slips. Any differences between the deposits and records of receipts are to be investigated and resolved.

Section 6.2.2.1.1. states:

- a. Division of duties in the handling of cash is one of the most effective ways to ensure control over this asset. No individual is to have complete control in the handling of cash. Specifically, there is to be a separation of duties in the actual handling of money, recording the transactions, and reconciling bank accounts. Employees handling cash are to be assigned duties that are complementary to or checked by another employee.
- j. A balance and summary of all cash receipts is to be prepared daily. Any shortages or overages are to be carefully investigated and, to the extent possible, corrected.

Section 6.2.2.1.1 states in part:

- c. Mail is to be opened by two persons. Remittances by mail are to be listed in duplicate at the time mail is opened. The listing is to be prepared by a person other than the one opening the mail. One copy of the listing is to be forwarded to the cashier with the receipts. The other copy is to form the basis of accounting controls through ledger posting. The listing is to be periodically compared with the deposit by a third person.
- d. Amounts of currency contained in each item of mail are to be verified. Documents enclosed with the currency received are to be machine date stamped or dated and initialed by the employee opening the mail.

Section 6.1.1.2.4 states:

Division of Duties - Whenever possible, no individual is to have complete control over any type of asset in any agency, department, or division of the state. The work of employees handling public assets should be complementary to or checked by other employees. This will not only decrease the chance of loss by means of fraud or dishonesty, but will also provide a means to detect errors.

Sound Policies and Procedures - Every effort is to be made to ensure that the assets of the state are properly handled. By supplying employees with strict control procedures and ensuring that they are followed through the use of checks and audits, the chance of losses will be greatly decreased.

These weaknesses increase the risk that public funds will be lost or misappropriated and not detected in a timely manner.

We recommend that Seattle Central Community College improve controls over cash receipts.

### Auditee's Response

*The Seattle Community College District accepts the Auditor's finding and recommendation, and will implement corrective steps as detailed below.*

- *Seattle Central Community College is implementing changes in their procedures regarding voided transactions. The Business Office will review the Void Report daily and review documentation related to each void. The Void Report will be attached to the daily batches (even when no voids are done). Daily reviews will consider reasons why voids are being done and appropriateness of such transactions.*
- *Seattle Central Community College will implement procedures whereby cashiers will rotate their completed deposits to be verified by another cashier each evening. When this proves unfeasible due to workload constraints, the Business Office will count and verify cash the following morning.*
- *Seattle Central Community College will publish procedures to campus departments concerning the opening of mail and preparation of a remittance listing for all cash/checks received within the department.*
- *Seattle Central Community College will implement processes to ensure that transmitted checks/cash include a remittance listing with the funds for the cashiers to verify. Locked bags will also be sent to departments who are currently sending cash/checks to cashiering to ensure secure transmittal. Remittance listings will be required of all such transmittals.*

*In addition to the above steps which are specific to Seattle Central Community College, the above findings and procedures will be shared among all campuses to ensure that this issue is addressed by each.*

### Auditor's Concluding Remarks

We appreciate the college's commitment to resolve the conditions noted in our finding. We will review the resolution of this issue during the course of our next audit.

#### 2. Seattle Community Colleges Should Process Refunds To Title IV Programs In A Timely Manner

The Financial Aid Office of North Seattle Community College did not process refunds to federal programs in a timely manner. During our audit we tested the records of 16 financial aid recipients who unofficially withdrew from the College. Refunds owed for 2 of the students were not paid within the required thirty day period. These refunds to the federal programs were 187 and 188 days late.

The *Code of Federal Regulations* (CFR) at 34 CFR 668.22(h)(2)(iv) states in part:

The amount of the Title IV, HEA program portion of the refund allocated to the Title IV, HEA programs must be returned to the appropriate program account(s) by the institution within 30 days of the date that the student officially withdraws or is expelled or the institution determines that the student has unofficially withdrawn.

College personnel indicated that the refunds were manually processed from student records and some students that require refund calculations may not be detected within a timely

manner. The college is now using a more automated means of detecting students who require refund calculations.

As a result, refunds and/or repayments are not completed in a timely manner as required by federal regulations.

We recommend the Seattle Community Colleges process refunds to Title IV programs in a timely manner.

#### Auditee's Response

*The Seattle Community College District accepts the Auditor's finding and recommendation, and will implement corrective steps as detailed below.*

*The above situation resulted from extraordinary events involving personal matters of the personnel in the Financial Aid office of North Seattle Community College. The above errors were discovered and corrected after the employee's return to work after a difficult leave period. At that time, there was a 100% audit of refunds, and no other errors were found.*

*The refund processes in operation are sound and provide for reporting within a timely manner. The importance of refunding within federally-required time lines has been stressed with the employee responsible. In addition to the existing processes in place, additional reporting has been implemented to compliment existing procedures as a double-check to ensure compliance.*

*In addition to the above steps which are specific to North Seattle Community College, the above findings and procedures will be shared among all campuses to ensure that this issue is addressed by each.*

#### Auditor's Concluding Remarks

We appreciate the college's commitment to resolve the conditions noted in our finding. We will review the resolution of this issue during the course of our next audit.

### 3. Seattle Community Colleges Should Implement Controls Over Small And Attractive Assets And Comply With State Regulations

Our audit at South Seattle Community College revealed the college does not have adequate controls to assure accountability for small and attractive assets in accordance with state regulations. As of July 1995, the centralized (District) purchasing office for the Seattle Community Colleges no longer maintains small and attractive items costing less than \$5,000 on the centralized inventory system. The responsibility for small and attractive inventories was transferred to the individual campuses at that time.

During our audit of South Seattle Community College's small and attractive assets we found:

- a. The Avionics and Aviation Department, as noted in our prior audit, had not implemented fixed asset control procedures adequate to safeguard department equipment inventory and ensure the accuracy and reliability of inventory records. Our testing during the current audit revealed inventory is not maintained on all the small and attractive assets in this department.

Department personnel are attempting to obtain an inventory system which will address their needs.

b. An inventory of computer equipment is not adequately maintained by the college as evidenced by the following:

- ◆ Our attempt to physically trace five computer processing units (CPUs) purchased in May 1996 revealed none of these items had been entered onto the Computer Services' PC database inventory system. In addition, we found no evidence of any computer equipment additions to inventory since February 21, 1995.
- ◆ A CPU with a state tag was found in a department but was not recorded on Computer Services' database inventory. Additional computer processing units located in various departments were not physically tagged or listed on Computer Services' database inventory.
- ◆ We found no evidence that an inventory of small and attractive computer equipment had been performed within the last two years. In addition, items may have been moved to other locations without changing their assigned locations, as required by college policy.

Procedures for a small and attractive inventory system had not been developed by either the district office or the college prior to removing the responsibility for these inventories from the centralized (district) purchasing office. As a result, items were not consistently tagged nor were new equipment purchases added to the database inventory system.

The State of Washington Office of Financial Management (OFM) *Policies, Regulations, and Procedures* manual, Section 3.1.2.2.7 states:

Small and attractive fixed assets are to be considered inventoriable assets and should be carried on the property records of the agency.

Section 6.2.2.1.9 (n) states:

Detailed records are to contain descriptions of the fixed assets that are brief but factual enough to allow for identification and location.

Section 3.1.2.2.11 states:

Agencies are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every two years.

Without maintaining complete and accurate fixed asset records, South Seattle Community College cannot ensure proper reporting, safeguarding, and accountability of state assets and equipment.

We recommend Seattle Community Colleges improve controls over small and attractive assets and comply with state regulations.

*Auditee's Response*

*The Seattle Community College District accepts the Auditor's finding and recommendation, and will implement corrective steps as detailed below.*



- *District purchasing and accounting offices are identifying small and attractive items that have not been updated on the centralized inventory system. These items will be added and maintained until the responsibilities are properly transferred to the campuses/departments with an inventory system in place.*
- *Policies and procedures have been developed and forwarded to affected departments.*
- *Copies of capitalized assets (\$5,000+ ) currently recorded on the centralized inventory system have been sent to departments identified in the audit. A specific individual has been identified to complete a thorough inventory review and implement an inventory system for small and attractive items by June 30, 1997 for the Aviation and Avionics Division.*
- *Campus Computer Services will be upgrading all administrative equipment on campus and installing new software. While doing this, they will be recording all information about the computer equipment and its location. This will serve as the basis for modifying and implementing an inventory system for computer services. This process will be completed within three months.*
- *Computer labs will go through the same process during the summer, when they are not as heavily used.*

*In addition to the above steps which are specific to South Seattle Community College, the above findings and procedures will be shared among all campuses to ensure that this issue is addressed by each.*

#### Auditor's Concluding Remarks

We appreciate the college's commitment to resolve the conditions noted in our finding. We will review the resolution of this issue during the course of our next audit.